

Company: CareSource KY Co
Line of Business: Individual ACA-Compliant NGF Plans
Rate Effective Date: 1/1/2017

Rate Change Summary

Requested Rate Increases: 20.55% ranging from 17.0% to 30.0%: 12,660 policy holders

Final Determination:

The Company has made two assumption changes from the originally submitted rate filing which resulted in a rating impact. The first change made by the Company was to correct the exchange fee and GAP assessment used in the development of the proposed 2017 rates. The second change the Company made was an increase in the assumed 2017 risk adjustment payment. The Company's decision was based primarily on the release of the final 6/30 federal risk adjustment report regarding calendar year 2015, which showed the Company underestimated its risk relative to the market. These two assumption changes have the net effect of increasing the original requested average rate increase of 20.55% to 29.3%, or an additional 7.3%.

In addition to the changes noted above, we also requested the Company make a correction to the filed URRT which did not have a rating impact. The Company originally projected the 2017 allowed claims using a morbidity factor to account for the expected 2017 risk adjustment payments and only entered the risk adjustment fee in the URRT. In our opinion, this did not follow the URRT instructions and therefore we requested the Company revise the URRT to show the actual anticipated 2017 allowed costs and assumed 2017 risk adjustment payments. The Company agreed and has provided revised documentation.

We recommend approval of the Company's final proposed 2017 rates after these modifications. If approved, the final average requested 2017 rate increase will be 29.3%.

Filing Note, Issues and/or Concerns

The primary drivers of the Company's original 20.55% requested rate increase were the following pricing assumptions:

- Company's morbidity assumption
- Risk adjustment
- Medical trend
- Expenses

While the Company's requested rate increase represents a significant increase over its current 2016 premiums, we had serious concerns that the initially proposed 2017 premiums could possibly be inadequate. Our concerns were based on a market wide rate comparison of the proposed premiums, a large change from the Company 2015 yearend reported RBC compared to its most recent statement (901% vs 379%) and a significant increase in membership in 2016.

Summary

The Company agreed to update the GAP assessment and Exchange fee which had an estimated impact of decreasing the proposed rates by -0.5%. The Company also agreed to remove the morbidity assumption and enter a risk adjustment assumption in the URRT, which is now based on the Company's actual 2015 risk adjustment payments as shown in the final report released on 6/30/2016. This revision had a rate impact of a 7.8% increase.

Additional filing notes based on initial review

- Experience: The Company was new in the individual market in 2015. Because they did not have actual 2014 KY ACA experience, the plan year 2016 premiums were manually rated based on Care Source's Ohio Commercial experience, with appropriate adjustments. The current proposed 2017 premiums are based on the company's actual 2015 ACA experience. This change in underlying experience appears reasonable to us.
- Trend: The current trend assumption is 5.4% annually which is slightly more than the 5.2% trend assumed in the previous filing. Given the lack of experience and the small change from what was assumed in last year's filing, we do not ask for additional support of this assumption and consider it reasonable.
- Reinsurance: As a result of the end of the federal reinsurance program, the rates were increased 3.6%.